The Future of Welfare: A Look into Universal Basic Income

An Honors Thesis (HONR 499)

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Abstract

This thesis is an exploration into the current United States Welfare System and Universal Basic Income, a proposed alternative welfare system. The current U.S. Welfare System houses multiple proposed issues which may weaken its effectiveness. These issues include the disincentives to word, emphasis on tangible progress, a limited impact, and an inability to accommodate coming trends of outsourcing and automation. Universal Basic Income may offer a solution to the potential pitfalls of this system.

Universal Basic Income offers many proposed benefits, both theoretical and explored through basic income experiments. Universal Basic Income may eliminate the Welfare Trap, increase psychological health, stimulate education, stimulate the economy, and promote a free market. Universal Basic Income has potential issues, including the public reaction to eliminating minimum wage, income inequality, and effects on immigration. The most noted concerns with Universal Basic Income - inflation, misuse of cash handouts, and depletion of the workforce – appear to be less pressing concerns based on current theory and experiments.

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I would like to thank Hunter Garrison for editing this paper. Without her, this paper would not be as clear and concise.

Process Analysis Statement

In Fall of 2016, I was a student in Dr. Thomas' elementary macroeconomics class. I believe Dr. Thomas was exploring social welfare programs when the topic of Universal Basic Income was mentioned. Though brief, this small remark stayed in the back of my mind throughout college. The concept was unlike other welfare systems to which I have been exposed: unconditional income tied only to citizenship.

Welfare reform has been in the news almost constantly since President Trump was elected in 2016. Welfare has rarely received a favorable light in current politics, but the drive to completely change the system has increased in recent years. The current welfare system often receives adjectives such as broken, inefficient, and wasteful. This initiative for change prompted an exploration into alternative systems and Universal Basic Income came to the forefront of possibilities.

The foundations for the project involved exploration into many previous research papers. Four basic income studies in Finland (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019), Zimbabwe (Robertson, et al., 2013), Kenya (Haushoffer & Shapiro, 2016), and Mexico (Cunha, 2010) created the foundation of my research for Universal Basic Income. More general research helped strengthen my understanding of the system. Understanding the current Welfare State also involved ample research, with additional exploration into government regulations.

If I wrote this paper again, I would dive deeper into the current Welfare State. I addressed large problems assumed to be a result of this system, but it is far more intricate than I delved. Also, I initially considered exploring Negative Income Tax by recommendation of Dr. Thomas. If I had more time, I would explore this system with the same focus as Universal Basic Income.

I. Introduction

Inside his New York Times bestseller *Looking Forward*, Franklin D. Roosevelt declared, "It is the purpose of the government to see that not only the legitimate interests of the few are protected but that the welfare and rights of the many are conserved" (Roosevelt, 2009, p. 140). The United States Welfare system was established in 1935 with this mission in mind. Roosevelt intended for a public safety net for all Americans so that citizens would no longer have to rely on the generosity of others through difficult times.

Now, some eighty years later, United States welfare is a hot topic in politics: often criticized for its cost to taxpayers, distorted incentives towards work, and inefficient help to struggling citizens. Proposals to increase the effectiveness of welfare are numerous, such as the relatively recent initiative to drug test welfare recipients (NCSL, 2017). At the core of this debate are a few simple questions: What elements of the current welfare state may be diluting its effectiveness? Is there a proposed welfare system which may offer a better fit to the United States? From these questions, this paper seeks answers.

II. The Welfare State

According to the United States Government, current government benefits are designed to help citizens cover basic living expenses (USA.gov, 2019). This means social welfare is divided into smaller programs geared towards purchasing a specific necessity. For instance, SNAP offers "benefit cards to buy food at authorized grocery stores" and Medicaid aims for "free or low-cost health benefits" (USA.gov, 2019). All programs employ income limits along with other requirements - such as family size - to ensure assistance is given to those who truly need it (USA.gov, 2019).

While these programs are intended as safety nets for citizens, they may create a ceiling of benefits where it is in a citizen's best interest to remain on social welfare programs. This phenomenon, commonly referred to as the poverty trap or welfare trap, is illustrated in Figure 1 (The Economist, 2009). Social welfare programs add a significant amount of relative income for a financially underprivileged family (The Economist, 2009). However, these benefits come with income limits. Therefore, relative income fluctuates as earned income increases, which is shown by the line on the graph of Figure 1. The proposed line for this family shows that an earned income of about $18,000, with the addition of taxes and subsidies, is essentially equivalent to an earned income of nearly $55,000 with the same additions taken into consideration (The Economist, 2009).

This is the proposed welfare trap. The Virginian family of three illustrated in Figure 1 receives a peak relative income at an earned income of $18,000. This peak is not surmounted until this family exceeds an earned income of nearly $55,000. Since humans are assumed to be rational, self-interested, utility maximized creatures, this trend suggests that this family will remain at an earned income of $18,000 until they can move to an earned income of at least $55,000. This implies that low-income families are encouraged to reject employment that will increase their earned income and decrease their government benefits, as it decreases their relative income. These citizens are theorized to only remove themselves from social welfare programs when they have the potential to drastically increase their earned income (The Economist, 2009). In this case illustrated in Figure 1, their earned income would need to triple.

It is speculated that the current social welfare in the United States could be wrongfully focusing on the illusion of employment progress. To receive cash assistance and services in Indiana, recipients must participate in Indiana's employment and training program, attend

Applicant Job Search Orientation, and complete twenty days of Applicant Job Search (Family and Social Services Administration, 2016). Some recipients benefit from these activities, but it can be a waste for other recipients. These requirements may put an emphasis on the quantity of a job search - shown with applications and attended training hours - rather than the quality of the job search - such as applying for jobs an applicant is interested in pursuing.

Additionally, despite extensive social welfare spending, the impact of this system may be limited. According to the Center on Budget and Policy Priorities, 59 percent of the 2016 federal government spending financed social welfare programs (Center on Budget and Policy Priorities, 2017). Social Security alone comprises 24 percent of the 3.9 trillion-dollar federal budget (Center on Budget and Policy Priorities, 2017). Excluding Social Security and health insurance programs, other safety net programs accounted for nearly 35 billion dollars (Center on Budget and Policy Priorities, 2017). These programs kept a recorded 36 million out of poverty, allowing for a 14 percent poverty rate in 2016 rather than a suspected 25 percent without these programs (Center on Budget and Policy Priorities, 2017). However, 40.6 million people were still in poverty in 2016, showing that half the vulnerable population still struggles with poverty (Semega, Fontenot, & Kollar, 2017).

These shortcomings show a trend towards allowing a higher poverty rate in the United States. According to Figure 2, the United States has the third highest reported poverty ratio of OECD countries in 2015 at 16.8 percent, surpassed only by Israel and Turkey (OECD Social and Welfare Statistics, 2018). Compared to Iceland, which boasts the lowest reported poverty ratio of 5.4 percent, the United States experiences over three times this poverty ratio (OECD Social and Welfare Statistics, 2018). Canada experiences a poverty ratio of 14.2 percent, a full two percentage points less than the United States (OECD Social and Welfare Statistics, 2018).

These historical struggles with poverty may not be the only concerns the United States social welfare program must face. With rapidly advancing technology, offshoring and automation are arising as much more prominent issues, and it is unclear if current social welfare is equipped to handle the future of poverty.

Offshoring - "the movement of jobs and tasks from one country to another" - has been a social discussion for centuries (Population Reference Bureau, 2008). Even Adam Smith addresses the government policies of mercantilism in his 1776 novel *Wealth of Nations*, which helped increase exports and decrease imports to maximize domestic production (Smith, 2003). However, offshoring has only become more accessible as technology increases. Manufacturing jobs have found purchase in offshoring for decades due to the incentive for business to move from high-cost countries to low-cost countries (Population Reference Bureau, 2008). Service sector jobs have only recently found offshoring to be a threat, losing "substantial numbers since 2002 and growing rapidly" (Population Reference Bureau, 2008).

With the movement of jobs in both manufacturing and service, offshoring has the potential to threaten the traditional livelihoods of Americans. As shown in Figure 3, all areas of the United States are susceptible to offshoring, with at least 10 percent of jobs being vulnerable (Devaraj, Hicks, Wornell, & Faulk, 2017, p. 2). "Major changes in technology and social norms" have been reported as the catalyst for continued offshoring within the United States. However, "job loss risk to offshoring is spread across income and education" (Devaraj, Hicks, Wornell, & Faulk, 2017, p. 2).

Automation is projected to present itself as the greatest factor in future job loss (Devaraj, Hicks, Wornell, & Faulk, 2017). According to Figure 4, one third to two thirds of jobs are susceptible to automation risk (Devaraj, Hicks, Wornell, & Faulk, 2017, p. 2). This is a

considerable percentage of the job market, and "automation risk is concentrated among low-wage, low-skilled workers" (Devaraj, Hicks, Wornell, & Faulk, 2017, p. 2). This research is supported by further findings at Oxford. According to a 2013 study, "wages and educational attainment exhibit a strong negative relationship with an occupation's probability of computerization" (Frey & Osborne, 2013, p. 42). Therefore, low wages and low educational attainment trend to a higher probability of automation.

Education, then, appears as a potential solution to foster higher skills. Trends in the United States education system may be leaving many without the necessary education. As shown in Figure 5, one out of every ten Americans twenty-five years or older have not earned a high school diploma (United States Census Bureau, 2017). Only a little over a third of Americans have a bachelor's degree or higher (United States Census Bureau, 2017). These numbers create an unsettling picture despite education being at its highest in United States history. This education gap could handicap the future workforce in a country expected to demand higher skilled workers.

III. Universal Basic Income

Universal Basic Income, often abbreviated as UBI, is an alternative welfare system with the potential to improve the current welfare state. UBI is defined as "a periodic cash payment unconditionally delivered to all on an individual basis, without means-test or work requirement" (BIEN, n.d.). While there are many forms of this system, a Full Basic Income implementation of the UBI is a common proposal. This means the cash payment is enough to place individuals above the poverty line, equivalent to approximately one thousand US dollars a month at the time of writing. There are five essential components to a UBI.

UBI is a cash payment (BIEN, n.d.). Dissimilar to many current government benefit programs, an essential factor of a UBI is the unrestricted nature of the assistance. Aid can be used on any commodity, which is often not limited to the legal market. Other forms of government aide- such as unemployment benefits, food stamps, and Medicare among others- will be eliminated for this cash payment. This aspect is a vital component of this social system and will be explored more in depth in the following sections.

UBI payments are periodic (BIEN, n.d.). Often, payments are proposed to be distributed monthly, like the United States Social Security system. In the past, the United States government has attempted economic stimulation through cash payments, such as with the 2001 tax rebate checks under President George W Bush. However, research found "only 22 percent of households receiving the rebate would spend it", most choosing to save it or pay off debt (Shapiro & Slemrod, 2001). A root cause of this phenomena is proposed to be the stickiness of consumption. This theory states that "past and future [financial] conditions have a significant effect on [current] spending" (Shapiro & Slemrod, 2001, p. 24). According to this theory, one-time monetary grants do little to stimulate the economy. Periodic payments, on the other hand, affect future financial conditions, which may allow for a change in consumption and economic stimulation. Periodic payments are necessary for the effectiveness of a UBI.

UBI is distributed on an individual basis (BIEN, n.d.). This removes the factors of marital status and family size. This component is essential to the simplistic nature of the UBI. Each citizen receives the same assistance, relative only to age. Currently, many forms of benefits - including disability, unemployment, and Medicaid benefits - depend heavily on marital status and family size. The tie between benefits and conditions is especially pertinent to those receiving disability benefits, which could potentially be terminated upon marriage (Clarke, 2013). This

practice is believed to be heavily restrictive on the disabled community, who must weigh the benefits of marriage against the benefits of their disability payments. UBI's simplistic, individual basis ensures citizens can enjoy the benefits without confounding consideration.

UBI is universal (BIEN, n.d.). As implied in the name, UBI is given to all American citizens legally residing within the United States. Payments are subjected to minimum residency requirements as well as continued residence inside the United States. However, there are no other conditions required to receive these benefits.

UBI is unconditional (BIEN, n.d.). UBI has no bearings on income, and benefits will not change based on the changing income of the individual. This attempts to place UBI as an economic floor for all citizens with the potential to simplify the welfare state.

UBI has never been implemented to its fullest extent, however, multiple studies have been done to predict the benefits and short comings of a basic income system. While this does not perfectly mirror a true Universal Basic Income, it does allow for insight into the possible effects of a UBI. To understand the scope of possibilities, four prominent basic income trials will be explored in relation to their benefits, myths, and issues of this system. First, it is necessary to understand the methods of each of these studies.

Finland completed a two-year basic income experiment from January 2017 to December 2018 (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019). Two thousand citizens receiving unemployment benefits began receiving a basic income of 560 euros per month on top of their previous benefits. This group was compared to a control of citizens only receiving unemployment benefits. This study examined numerous effects of the experiments, all of which are summarized in Figure 6 (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019).

Mexico completed a partial basic income study in the early 2000s (Cunha, 2010). Mexico's Food Assistance Program (PAL) aims to "improve the food security, nutrition intake, and health of the poor" by giving over 200,000 households ten basic yet nutritious food items (Cunha, 2010). The aim of this study is to test this system against cash transfers. A sample of 208 villages randomized the transfer type for each household, receiving either "The in-kind food transfer, an unrestricted cash transfer, or no transfer" (Cunha, 2010).

Another study in Kenya used a randomized, controlled trail to test the effects of unconditional cash transfers to rural Kenyans (Haushoffer & Shapiro, 2016). The randomization occurred at both village and household level, with randomized recipient gender inside the individual household (Haushoffer & Shapiro, 2016). Furthermore, transfer timing and magnitude were also randomized (Haushoffer & Shapiro, 2016). This study wished to explore the effects of cash transfers on economic outcomes, stress, and psychological well-being.

The fourth prominent basic income study to be explored is in Zimbabwe. Here, the "effects of unconditional and conditional cash transfers on child health and development" were the major exploratory factors (Robertson, et al., 2013). 1,199 households were placed inside the control group, who received no cash transfer; 1,525 households in the UCT group, who received an unconditional cash transfer; and 1,319 to the CCT group, who received a conditional cash transfer (Robertson, et al., 2013). The CCT was monitored for child wellbeing conditions, while the UCT was not (Robertson, et al., 2013). Relevant statistics from this study are available in Figure 8.

UBI has many theorized benefits. These test trials of basic income allow for an insight into the short-term effects of a proposed UBI. Different implementations have allowed focus on different areas, which allow a wider scope of resulting effects.

A proposed impact of UBI is the illumination of the Welfare Trap. UBI cannot be taken away, regardless of income level, therefore, relative income and earned income are expected to relate in a monotonic, positive trend. In Figure 1, current welfare has the proposed issue of diminishing benefits with higher incomes, creating a disconnect between earned income and relative income (The Economist, 2009). UBI, being unconditional, does not have diminishing benefits. This suggests there will be no instance where additional earned income does not correspond to additional relative income with a pure UBI.

An introduction of a UBI proposes an increase in psychological health for its citizens. UBI is intended as a floor for all citizens, ensuring that basic necessities will be taken care of regardless of additional income. This potential proposes a decrease in stress, which is a major factor in the struggle against mental health. According to the National Alliance on Mental Health, "depression is the leading cause of disability worldwide" with "serious mental illness cost[ing] America $193.2 billion in lost earning every year" (National Alliance on Mental Health, 2019). Security offers potential partial relief from mental anguish for low income households.

Finland's study supports this increase in psychological health. According to Figure 6, three separate areas of psychological health were reported to improve for participants in basic income (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019, pp. 22, 25). Participants reported feeling less stressed and able to concentrate better. Also, loss of interest in things once found enjoyable - a warning sign for depression - decreased significantly in those receiving basic income (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019, p. 22). Kenya's basic income experiment supports this decrease as well. Although research did not find an effect on stress

hormones, transfer recipients reported “large increases in psychological well-being” (Haushoffer & Shapiro, 2016).

UBI may stimulate education. In a variety of surveys taken from 1955 to 2002, 9 percent to 41 percent of high school dropouts stated financial reasons contributed to leaving school (Doll, Eslami, & Walters, 2013). These reasons included needing to support the family/self, worrying about money, and general financial difficulties. These financial problems do not appear to ebb in the presence of college. In fact, college affordability is a major factor of inequity (Poutrw, Rorison, & Voight, 2017). A graph taken from a study on college affordability, placed as Figure 7, highlights the burden of financial means placed on college choice with ten hypothetical students (Poutrw, Rorison, & Voight, 2017). Independent students, all with an income of less than $21,000, were able to afford a maximum of 2 percent of the sample college under a ten-year, ten percent of income saving scheme (Poutrw, Rorison, & Voight, 2017). Dependent students - who were able to take advantage of additional income from their parents - did only marginally better, with the highest five-digit salary only raising this number to 5 percent (Poutrw, Rorison, & Voight, 2017).

UBI may be able to alleviate some of the financial burdens involved with education. This would allow for a greater number of Americans to attend school, both at the high school and college levels. This proposal is supported by the Zimbabwe study illustrated in Figure 8 (Robertson, et al., 2013). As shown, Unconditional Cash Transfers increased school attendance for children ages six to seventeen (Robertson, et al., 2013). Families receiving these transfers were under no obligation to increase their child’s attendance, though this statistic increased significantly regardless.

UBI has the potential to stimulate the economy. High-income Americans reportedly add only $0.39 to the GDP for every extra dollar they earn (Anderson, 2015). Each additional dollar to low-wage workers "adds about $1.21 to the national economy" (Anderson, 2015). However, the spoils of economic growth appear to be concentrated among high-income Americans, as shown by Wall Street bonuses being "double the earnings of all full-time minimum wage workers in 2014" (Anderson, 2015). UBI attempts to alleviate this discrepancy by redistributing income, providing greater means for those who are theorized to add more to the national economy. Additionally, according to Finland's basic income study shown in figure 6, the inclusion of a basic income created greater confidence in recipients to start their own business, another potential source of economic growth (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019, p. 28).

UBI is also expected to promote the free market. The current welfare state aims to "help people with a low income cover basic expenses likes food, housing, and healthcare" (USA.gov, 2019). This intent is shown by the subsidizing quality of these benefits, as particular benefits can only be used on specific items (USA.gov, 2019). However, this type of benefit is restrictive on the recipient. Recipients must use each benefit in a specific manner in authorized locations (USA.gov, 2019). This diminishes buying freedom and may force recipients to spend their aid on eligible items which provide less utility. Recipients may instead sell aide, most commonly food stamps, in the illegal market for more versatile assets, such as cash, in a crime referred to as food stamp trafficking (USDA). UBI, however, gives unrestricted aide. Therefore, recipients should have control over its spending, ensuring utility is maximized for each dollar for each citizen.

UBI is not without several myths. These primarily focus on issues of inflation, mishandling cash handouts, and worker laziness. However, studies and theory imply these issues are not expected to be considerable matters for a UBI.

A common misconception of UBI is its ability to cause massive inflation, which will cancel the impact of the UBI, but this fear is not supported with economic theory. Leading theory on inflation attributes long term inflation to the size of the money supply (Federal Reserve Bank of St. Louis). The money supply increasing at a rate faster than economic growth will cause an increase in inflation (Federal Reserve Bank of St. Louis). Effective UBI plans do not plan to affect the money supply, as money is not printing to pay for the UBI. Rather, UBI attempts to redirect money, promoting a stable money supply. This suggests that UBI should not create inflation.

According to the basic income study in Mexico, "neither cash nor PAL in-kind transfers systematically altered local food prices" (Cunha, 2010). The Kenyan basic income study also found "no significant village-level effects [of inflation], except for a marginally significant effect on the index of nonfood prices" (Haushoffer & Shapiro, 2016). Both studies, however, admit to the limit of their scope, as only specific households were affected rather than the entire village receiving income.

Concern for UBI arises in the potential uses of the unrestricted money given. However, this concern is not supported by current basic income trials. According to the study on cash transfers in Mexico, "very little of the cash transfer [was spent] on vices, such as alcohol and tobacco" (Cunha, 2010). Nutritious food, such as fruits and vegetables, were bought with much of the money (Cunha, 2010). In fact, within the current welfare state, "rates among welfare recipients [for drug and alcohol abuse are] similar to national estimates" (Grant & Dawson).

Another common concern of UBI is a drastic reduction in the work force. While the true impact to the workforce is currently unknown, the levels of proposed UBI do not suggest a significant decrease in the workforce. Alaskan citizens have received a yearly cash dividend since 1982 (Jones & Marinescu, 2018). Results from researching the employment of these citizens suggests "that a universal and permanent cash transfer does not significantly decrease aggregate employment" (Jones & Marinescu, 2018). In Finland's basic income trial, shown in Figure 6, full time and part time employment did not change in a statistically significant way (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019, p. 23). Furthermore, a statistically significant increase in basic income recipients believed they would find employment in twelve months, implying a continued job search (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019, p. 22). UBI is not theorized to be large enough to allow most Americans to live comfortably. In fact, less than 11 percent of Americans currently live on under $15,000 a year (Statista, 2018). The median household income in the U.S. is currently around $62,000, over five times greater than a single Full Basic Income of $12,000 (FRED, 2018).

Data suggests that these factors are not affected in a statistically significant manner by the implantation of a UBI. However, UBI is not exempt from probably issues currently unaddressed. While there are issues that UBI does not address, there are three prominent issues implementing a UBI may create: the abolishment of minimum wage, income inequality, and diminishing immigration.

UBI will abolish minimum wage. Minimum wage was implemented to "create a minimum standard of living to protect the health and well-being of employees" (Cornell Law School). With this new social welfare system, UBI will supply the minimum standard of living at $1,000 per month. The minimum wage becomes unnecessary. However, the American public

may believe differently, instead supporting the raising of minimum wage (Molyneux & Horwitt, 2019). According to this survey, 65% of voters in "competitive congressional districts favor raising the federal minimum wage in stages to $15" (Molyneux & Horwitt, 2019). Furthermore, a bill introduced into congress in January, referred to as the "Raise the Wage Act", proposes this exact rise (Scott, 2019).

UBI has the potential to create massive income inequality. Living in urban areas comes with greater expenses than rural areas, with "urban households spen[ding] 18 percent more" in a year (United States Department of Labor, 2013). As shown in Figure 9, the largest discrepancy is in housing. Urban dwellers spend one-third more on housing annually, "accounting for about two-thirds of the difference in overall spending between urban and rural households" (United States Department of Labor, 2013). The main contributing factor to this is the lack of land (United States Department of Labor, 2013). Urban areas have limited space, but many people compete for it. Therefore, the demand is high, and supply is low, presenting a trend which suggests higher prices. Rural areas, on the other hand, have plenty of land, keeping prices low.

Housing subsidies and assistance will disappear, leaving the burden of rent entirely on citizens. Rent already acts as a severe burden on income for lower income individuals as shown in Figure 10 (United States Department of Labor, 2013). Though UBI is additional income, rent could very easily require all this assistance as well as more, leaving too little income for other necessities. Other income brackets will also feel the effects of rent changes. However, rent requires a smaller percentage of their income, allowing them to a greater amount between current rent spending and an amount classified as a severe burden (United States Department of Labor, 2013).

As rational, self-interested, utility maximizing humans, lower income individuals may migrate out of urban centers in search of more affordable rent prices. Those left in urban areas may be primarily middle income and wealthy persons. The effects of this socioeconomic migration are not yet known but speculation suggests rent increases in rural areas due to increasing demand (United States Department of Labor, 2013). Furthermore, distinctions between rich and poor may heighten with wealthy people centralized in urban areas.

Decreasing immigration may also become an issue. According to the US Department of Homeland Security, over 1.1 million persons obtained permanent resident status in 2017 (Homeland Security, 2018). This number has remained around one million for over a decade, with little evidence of dropping in the foreseeable future (Homeland Security, 2018). However, a drastic welfare reform such as UBI could stunt immigration. At least one federal welfare program is utilized by 51 percent of immigrant-headed households (Richwine, 2016). However, immigrants would not be initially eligible for UBI, as it is subjective to a minimum residency requirement. Additionally, immigrants tend to have lower education levels, with "over 24 percent… headed by a high school dropout" (Richwine, 2016). This statistic is three times higher than the native household average of eight percent (Richwine, 2016). This leads to unfortunate implications, as automation risk centralizes on low skill jobs for which uneducated persons would find themselves most qualified (Devaraj, Hicks, Wornell, & Faulk, 2017, p. 2).

The looming issue of UBI is its cost. The U.S. Census Bureau estimates 77.4 percent of Americans in 2018 are over the age of eighteen (United States Census Bureau, 2018). With an estimated 2018 population of about 327.2 million, nearly 253.2 million Americans would be eligible for the benefits of a UBI (United States Census Bureau, 2018). This brings the cost of one thousand dollars a month UBI, considered a Full Basic Income, at an estimated 3.04 trillion

dollars annually. For comparison, in 2017, social security, Medicare, Medicaid, CHIP, and market subsidies cost the federal government a little under two trillion dollars annually (Center on Budget and Policy Priorities, 2017). Including other safety net programs, such as Supplemental Security Income, SNAP, and low-income housing among others, adds another 357 billion dollars (Center on Budget and Policy Priorities, 2017). The grand total of current social welfare spending on a federal level is about 2.3 trillion or 59 percent of federal spending. An extra 740 billion dollars would be needed annually to produce the benefits of a Full Basic Income. Additionally, this does not include administration costs for distributing the UBI.

UBI is comparatively expensive. The first step to secure funds is eliminating other social welfare programs. As shown above, this proposal alone would be insufficient to pay for UBI in its entirety. However, for many people, it is the first step in implementing a UBI. This is not without disagreement, though. Due to the unstructured, non-focused nature of a UBI, there is a concern that eliminating the Welfare state will negatively impact those who are most needy (Minogue, 2018). Dropping social security in particular is an issue for lawmakers, as older individuals with greater investment in this program tend to vote in higher numbers (File, 2017).

A solution proposed to cover the cost is increasing existing tax rates. U.S. taxes are reported as "low relative to those in other developed countries" (The Tax Policy Center, 2016). According to Figure 11, the United States is considerable under the OCED average of tax revenue as percentage of GDP (The Tax Policy Center, 2016). The United States' percentage is seven percentage points lower than the OCED average (The Tax Policy Center, 2016). This 21 percent difference between the tax revenue could be untapped potential for government resources.

A simple tax increase to existing taxes may not be the answer to the funding problem for a UBI. As shown by the Laffer curve in Figure 12, a higher tax rate does not guarantee larger tax revenue. T* is denoted as the optimal tax rate for the maximum tax revenue. Due to the differences each country faces, the United States' optimal tax rate may be considerably lower than other OECD countries. As shown by Figure 11, all three North American countries reside with tax rates below the OECD average (The Tax Policy Center, 2016). It is possible North American countries have a lower idea tax rate. Furthermore, raising tax rates is a politically unfavorable move for politicians, who are concerned with reelection.

Another proposal for paying for a UBI is adding a new tax, called a VAT. VAT stands for Value Added Tax, common in "every economically advanced nation except the United States" (Tax Policy Center, 2016). Value added is defined as "the difference between business sales and purchase of good and services from other businesses" (Tax Policy Center, 2016). For example, a farmer raises a cow and sells the cow to a slaughter house for $400. The slaughter house then sells that meat to consumers for $1,000. $600 of value was added, and this will be the amount susceptible to a VAT for the slaughter house. For the OECD, VAT averages the third largest revenue source (Tax Policy Center, 2016). VAT is popular due to relatively easy implementation. Furthermore, VAT is proposed to not have a direct effect on the choices of household savings and business investments while actively encouraging businesses to keep costs down (Tax Policy Center, 2016). VAT systems also remain effective in the face of autonomation.

VAT, though, is not without its own concerns. VAT is a regressive tax. Lower-income households spend a larger percentage of their income on consumption (Tax Policy Center, 2016). As VAT is a consumption tax, low income households would be affected greater than high

income households, who tend to consume a smaller percentage of their income. However, removing the VAT tax on essential goods could reduce this issue (Tax Policy Center, 2016). On the other hand, tax refunds have also been suggested to offset the effect on lower income households (Tax Policy Center, 2016). VAT has the pressing issue of tax evasion and fraud, so much so that many in the EU are calling for reform to diminish this (Keen & Smith, 2007).

New revenue, caused by the implementation of UBI, is a common proposal to pay for UBI. According to research, based on the Levy Model, a UBI of one thousand dollars a month for all adults "expands the economy by 12.56% over the baseline after eight years" (Nikiforos, Steinbaum, & Zezza, 2017, p. 3). This economic expansion should lead to an increase in tax revenue, with the hope that the UBI will eventually pay for itself.

While this proposal is the most optimistic, its effectiveness is greatly unknown. A UBI has never been tried in the entire United States and the effects of this could be more unpredictable than expected. Also, the issue rises of paying for the UBI in the beginning years, when the economy is only expected to grow a small amount and the burden of implementation costs are high (Nikiforos, Steinbaum, & Zezza, 2017). Eventually, the UBI is theorized to be handled greatly by existing tax increases through economic growth (Nikiforos, Steinbaum, & Zezza, 2017). Initially, though, this method is expected to be insufficient on its own.

The UBI will most likely be payed for with a combination of multiple proposals. A combination of reduction to the current welfare state, increasing existing taxes, and including a VAT could potentially pay for the initial years of UBI within the next few years, with the hold that economic growth will eventually reduce the burden. However, much debate comes in each of these, especially cutting the current welfare state. Though UBI may look massive and expensive, it could be attainable.

IV. Conclusion

Research has found proposed inefficiencies in the current welfare state. Studies suggest the disincentives to work, quantitative focus, and limited impact may be hindering this system's effectiveness for the United States. Furthermore, as the United States trends towards automation and outsourcing, the current welfare state's ability to handle these issues is unknown.

Universal Basic Income is a proposed system to replace the welfare state. This system comes with many theorized benefits, shown in basic income studies across multiple countries. UBI has the potential to eliminate distorted work incentives, increase psychological health, stimulate education, and stimulate the economy with an emphasis on the free market. However, UBI is not without its own mysteries and issues, including the public attitude towards minimum wage, income inequality, and impacts on immigration.

The future of US welfare is unknown. However, calls for reform in the current system are tangible. In the U.S. budget for the 2020 fiscal year, President Trump intends to "strengthen work requirements to promote self-sufficiency", requiring able-bodied, working-age individuals to "find employment, train for work, or volunteer in order to receive welfare benefits" (Budget of the U.S. Government, 2019, p. 48). Presidential candidate Andrew Yang has made Universal Basic Income a foundation of his candidacy (Yang2020, 2019). Welfare is finding reform each year, but the next year in particular will be paramount for both the future of Welfare and a Universal Basic Income.

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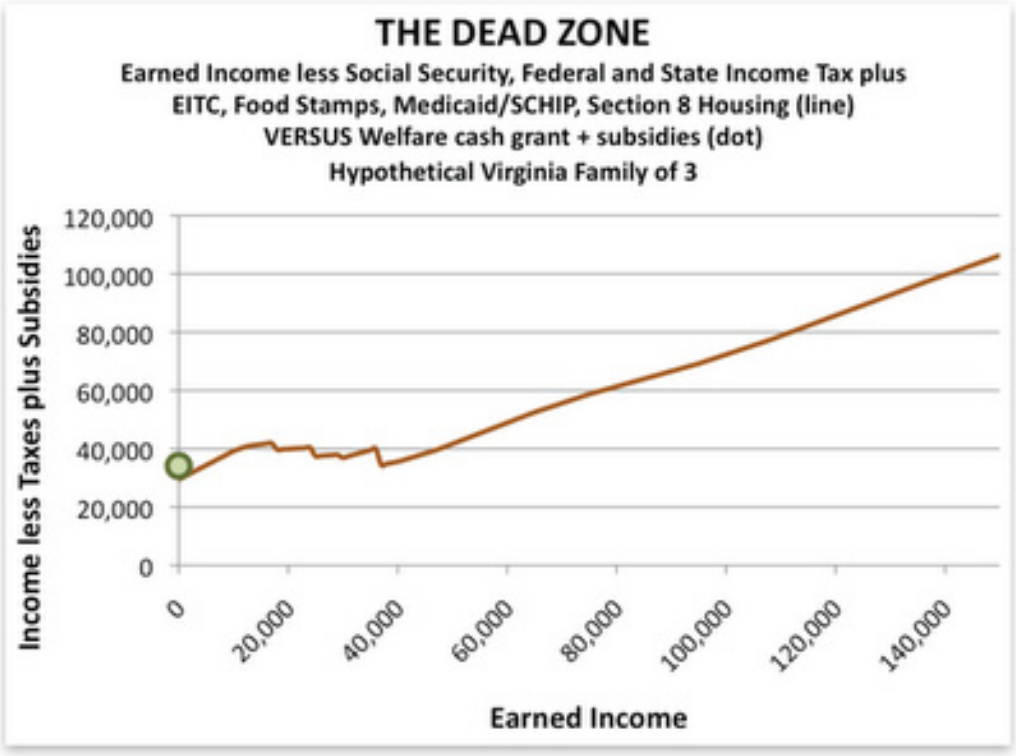
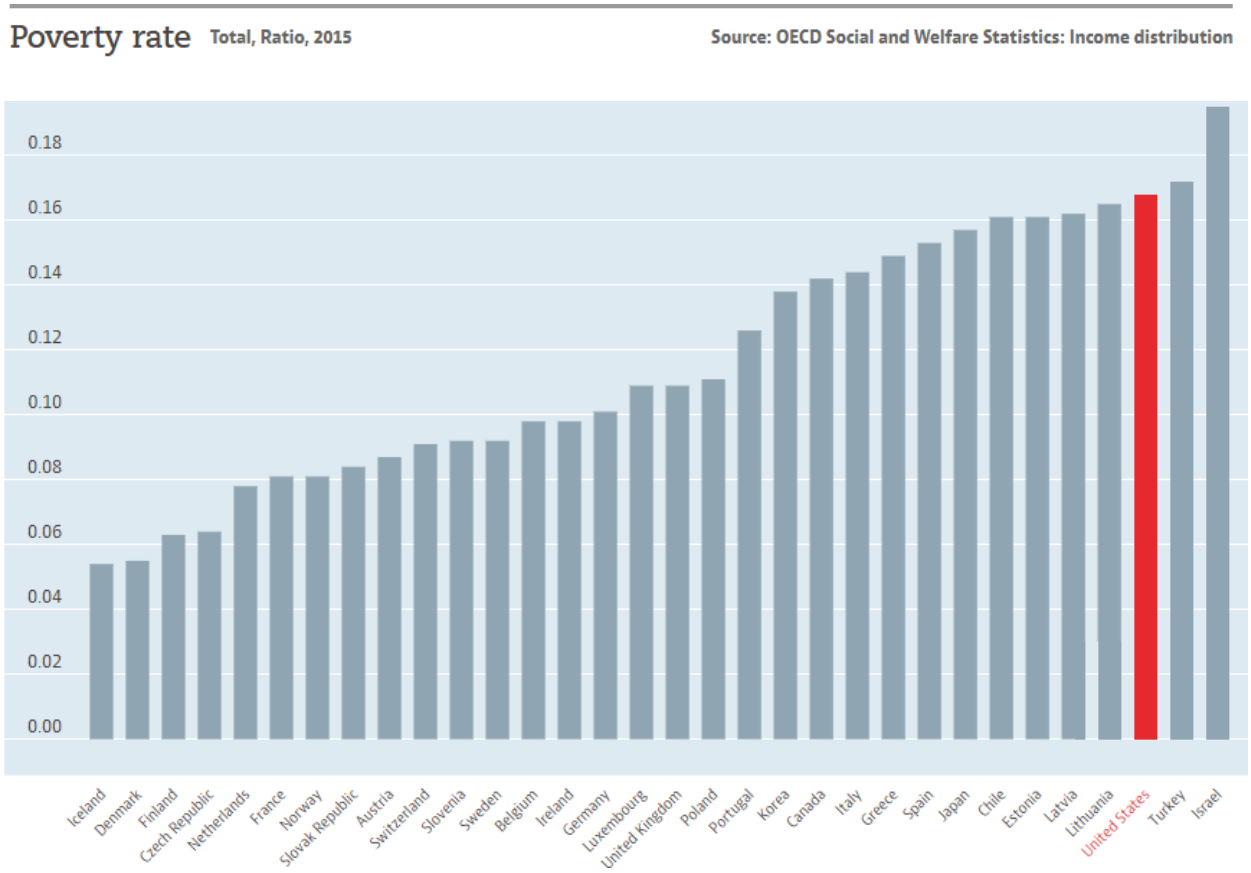
Appendix

Figure 1



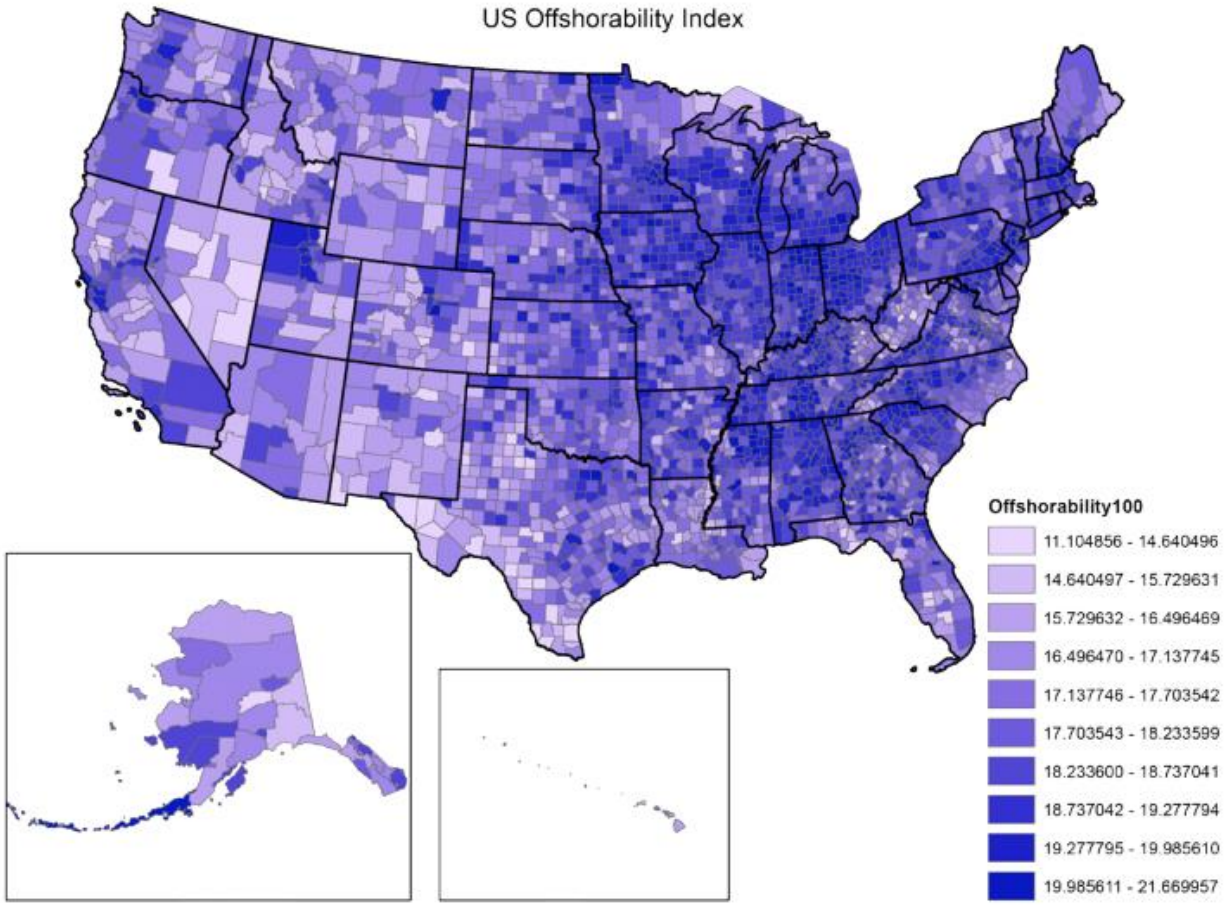
Source: (The Economist, 2009).

Figure 2



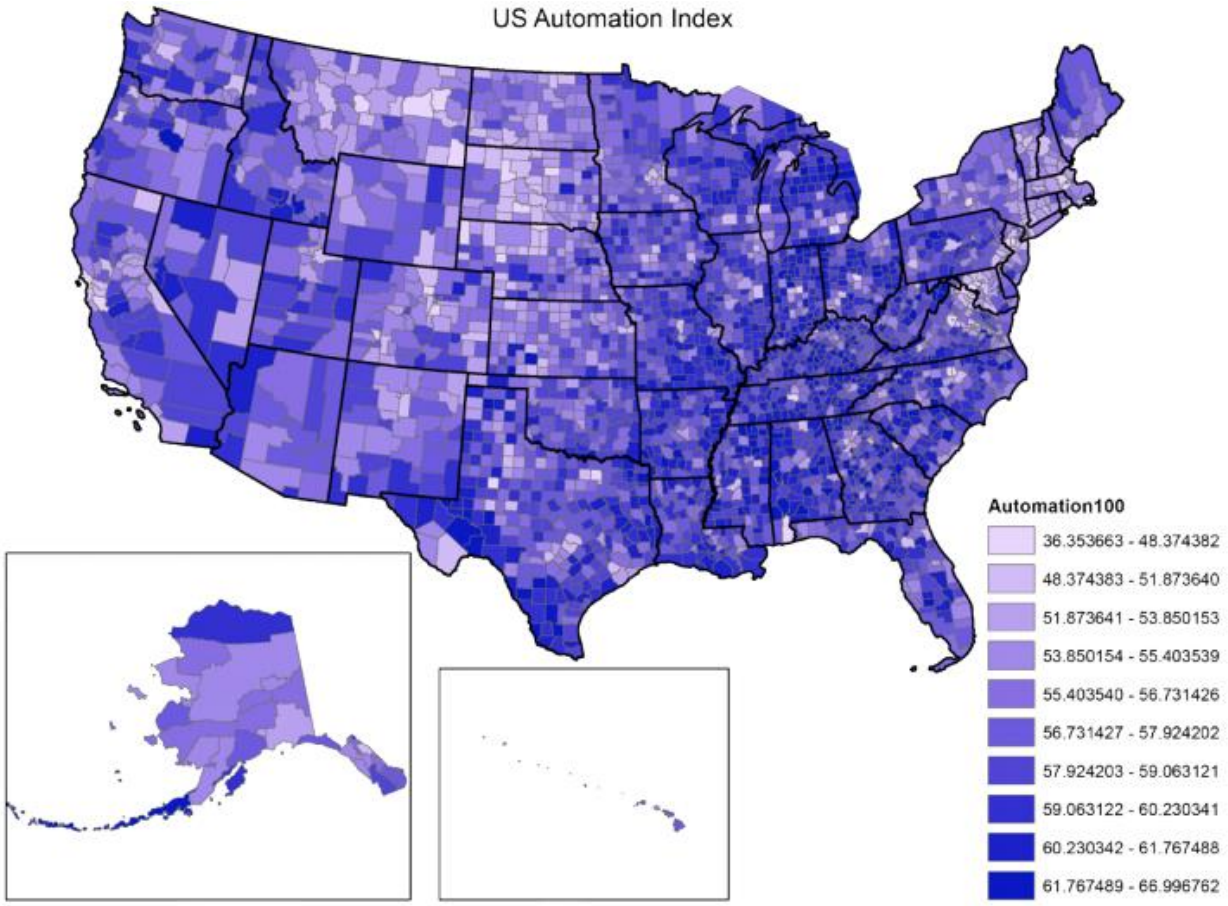
Source: (OECD Social and Welfare Statistics, 2018).

Figure 3



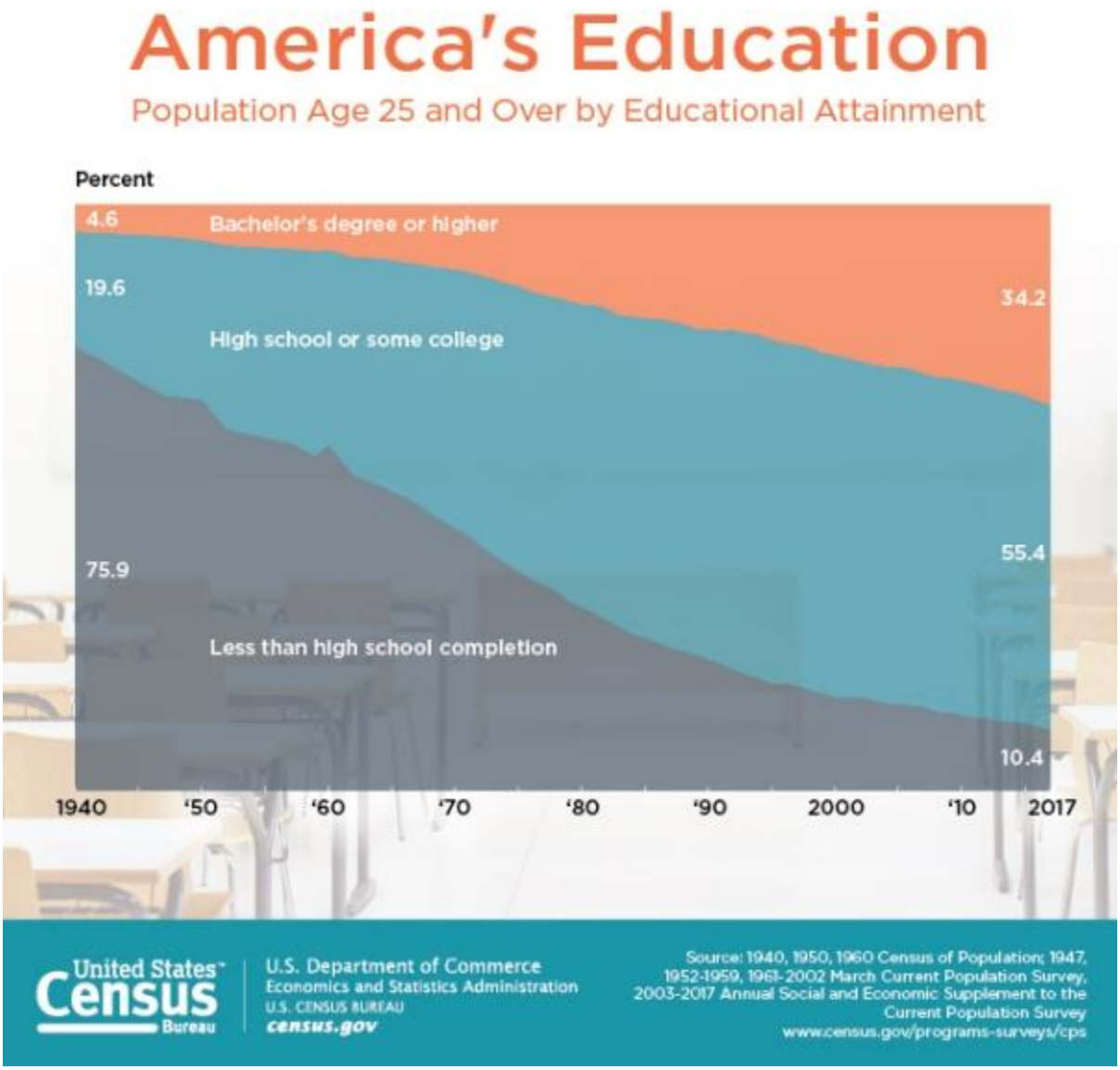
Source: (Devaraj, Hicks, Wornell, & Faulk, 2017).

Figure 4



Source: (Devaraj, Hicks, Wornell, & Faulk, 2017).

Figure 5



Source: (United States Census Bureau, 2017).

Figure 6

The basic income experiment 2017–2018 in Finland

Assessment	P-Value	Statistically Significant?
Trust		
Other persons	.0030	Yes
The legal system	.0183	Yes
Politicians	.0007	Yes
Confidence		
One's own future	<0.0001	Yes
One's own financial situation	<0.0001	Yes
Ability to influence societal matters	<0.0001	Yes
Self-Assessment of Health		
Overall health	.0073	Yes
Ability to concentrate	.0001	Yes
Loss of interest in things once enjoyable	.0003	Yes
Perceived level of stress	.0005	Yes
Labor Market		
Full-time and part-time employment	.0870	No
If part-time, would rather work full-time	.1931	No
Believes will find employment in 12 months	<.0001	Yes
Financial wellbeing at current income	.0002	Yes
Experience of Bureaucracy		
Too much in claiming social security?	.0009	Yes
Basic income would reduce it with job offers?	<.0001	Yes
With Basic Income, it would…		
Make financial sense to accept a job offer	<.0001	Yes
Be easier to start your own business	<.0001	Yes
Should Basic Income be a Permanent Addition?	<.0001	Yes

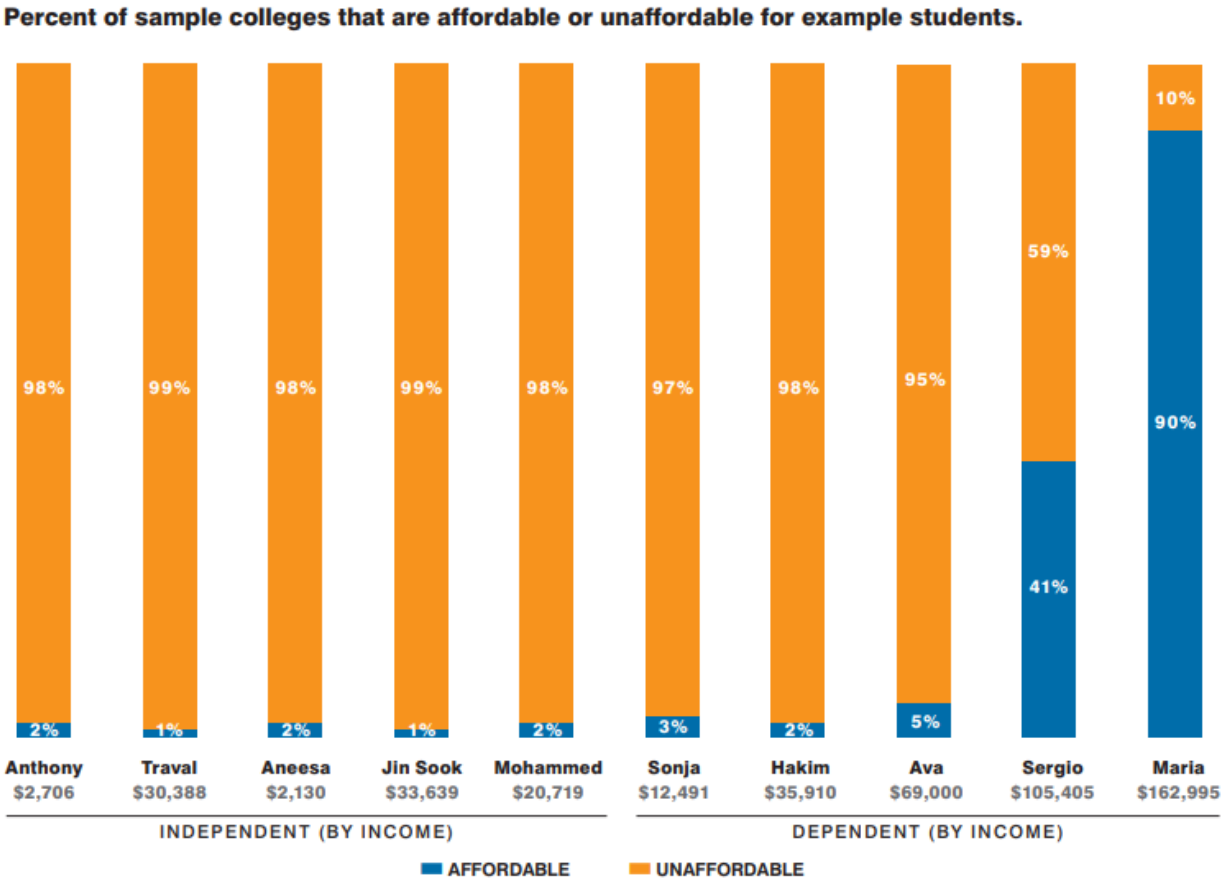
**Use of chi-squared distribution.*

***p-values at or below .05 are statistically significant.*

Information from basic income experiment 2017-2018 in Finland.

Source: (Kangas, Jauhianiene, Simanainen, & Ylikanno, 2019).

Figure 7



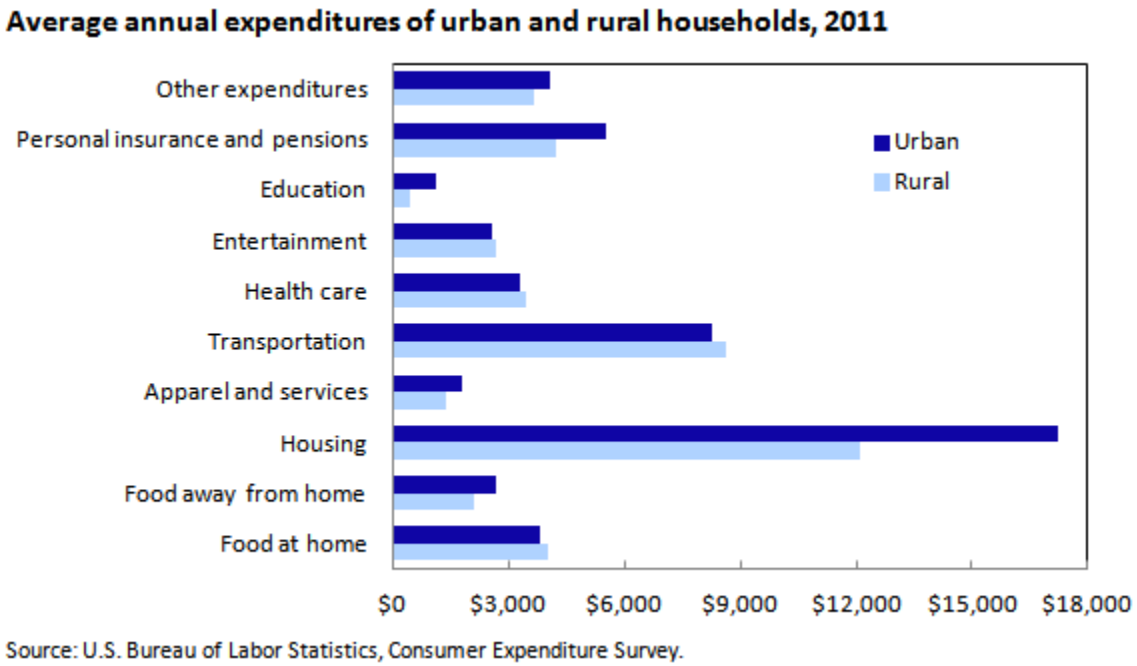
Source: (Poutrw, Rorison, & Voight, 2017)

Figure 8

Indicator	Statistically Significant Increase for UCT vs Control	Statistically Significant Increase for CCT vs Control
Births Registered (0-4 years)	No	Yes
Complete Vaccination Record (0-4 years)	No	No
School Attendance > 80% (6-12 years)	Yes	Yes
School Attendance > 80% (13-17 years)	Yes	Yes

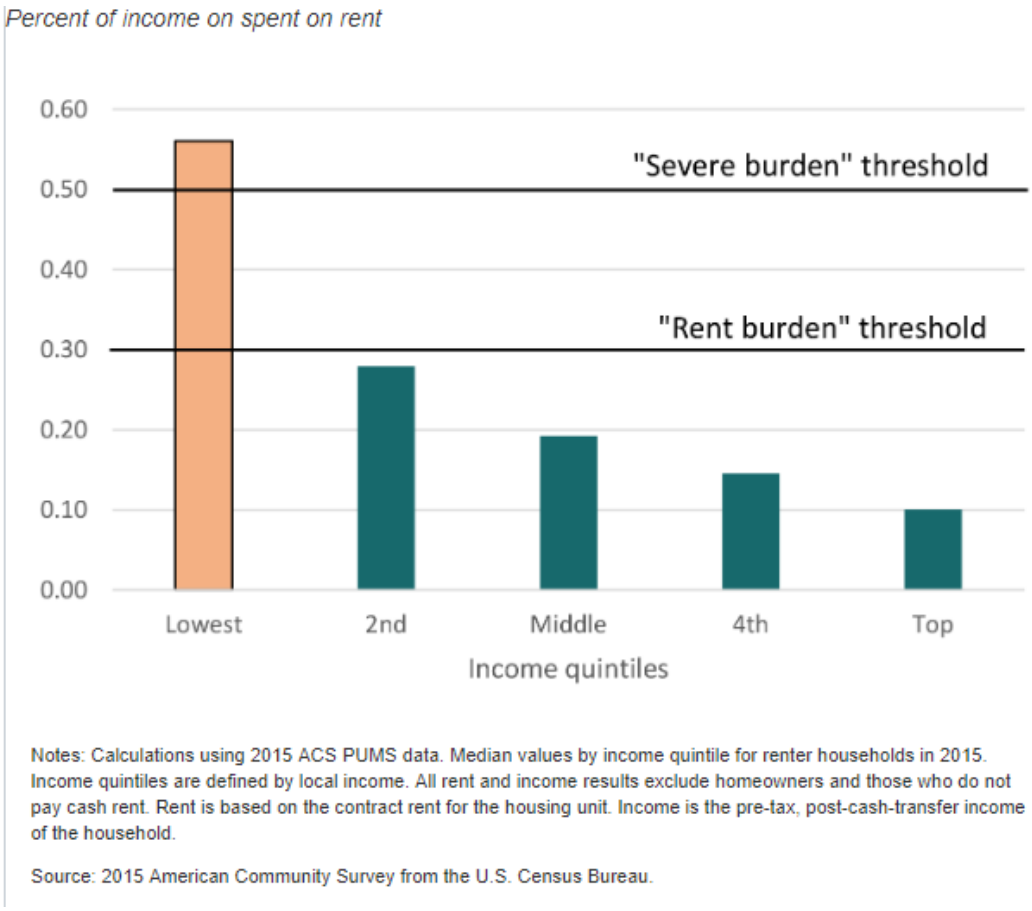
Source: (Robertson, et al., 2013)

Figure 9



Source: (United States Department of Labor, 2013)

Figure 10

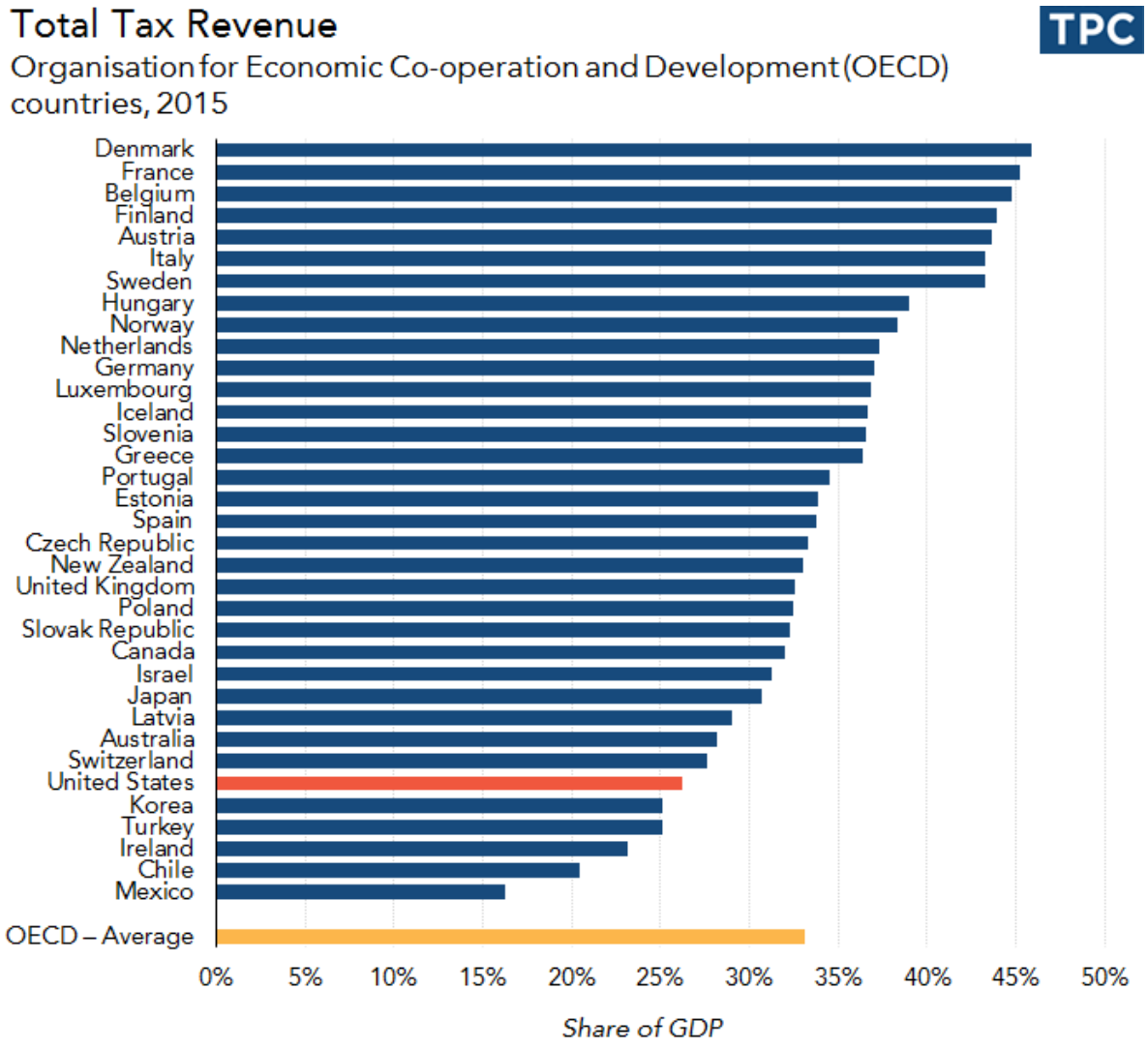


Notes: Calculations using 2015 ACS PUMS data. Median values by income quintile for renter households in 2015. Income quintiles are defined by local income. All rent and income results exclude homeowners and those who do not pay cash rent. Rent is based on the contract rent for the housing unit. Income is the pre-tax, post-cash-transfer income of the household.

Source: 2015 American Community Survey from the U.S. Census Bureau.

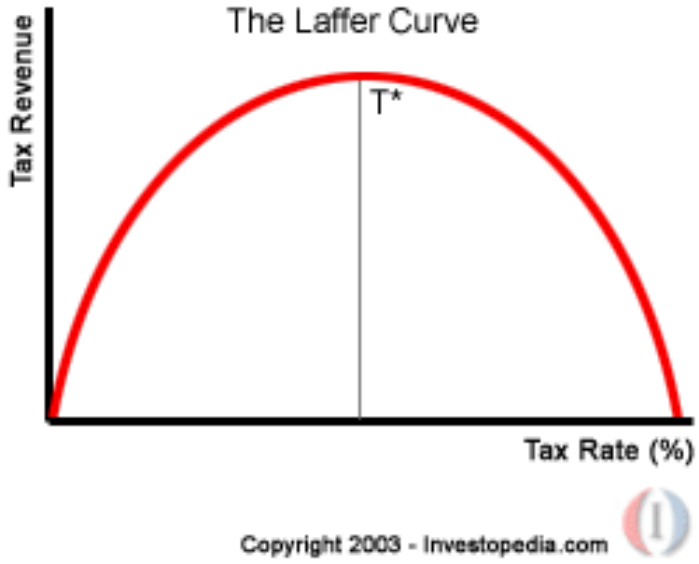
Source: (Larrimore & Schuetz, 2017)

Figure 11



Source: (The Tax Policy Center, 2016).

Figure 12



Source: (Kenton, 2018).